



EaPTC

Eastern Partnership
Territorial Cooperation

GEORGIA

The Guide to the National Requirements Relevant for the Implementation of Projects Financed under EaPTC Programmes in Georgia



The Programme is funded
by the European Union



Territorial Cooperation Programmes open an opportunity for Eastern Partnership countries to identify and jointly address common challenges in their border regions towards sustainable economic and social development at a local level. Eastern Partnership Territorial Cooperation (EaPTC) comprises four territorial cooperation programmes: Armenia – Georgia, Azerbaijan – Georgia, Belarus – Ukraine and Moldova – Ukraine.

This Guide is produced with the assistance of the European Union. The content of this Guide is the sole responsibility of the Altair Asesores-led consortium and can in no way be taken to reflect the views of the European Union.

All information given in this Guide reflects the actual status as of 1 November 2014. Later changes to the legislative and administrative framework could not be taken into account.

CONTENT

ACRONYMS AND ABBREVIATIONS.....	5
INTRODUCTION	6
ACKNOWLEDGEMENTS.....	6
PART 1 PROJECT START UP	7
1. PROJECT REGISTRATION.....	10
2. OPENING A BANK ACCOUNT	11
3. SETTING UP THE TEAM: INTERNAL ORDERS AND CONTRACTUAL RELATIONS FOR HUMAN RESOURCES.....	13
4. SETTING UP AN ACCOUNTING SYSTEM: SPECIFICITY OF FINANCIAL ACCOUNTING	14
PART 2 PROJECT IMPLEMENTATION	16
1. RECEIVING AND TRANSFERRING MONEY INTO AND OUTSIDE OF GEORGIA	17
2. FOREIGN CURRENCY EXCHANGE	18
3. TAXATION ACCORDING TO SPECIFICITY OF A GRANT RECIPIENT	20
• Value Added Tax; Application procedure for Tax Exemption	20
• Income Tax	22
• Property Tax	23
• Customs (import tax).....	24
4. BUSINESS TRIP: PAYING TRAVEL COSTS AND PER DIEMS TO GEORGIAN AND FOREIGNER EMPLOYEES/EXPERTS.....	26
• Participation of Georgian and foreign employees/experts in the project activities within Georgia, Armenia and Azerbaijan	26
5. SPECIFIC ISSUES OF THE ECONOMIC ACTIVITIES OF NON-ENTREPRENEURIAL(NON-COMMERCIAL) LEGAL ENTITIES.....	28
6. PROCUREMENT PROCEDURES: PROCUREMENT SUPPLY, SERVICE AND WORK; PURCHASING EQUIPMENT AND SUPPLIES: ACQUISITION AND REGISTRATION	29
• Purchases made by public authorities or public bodies.....	29
• Purchases made by non-Entrepreneurial (Non-commercial) Legal entities (N(N)LEs, etc.)	29
• Purchase of equipment subject to registration – Property subject to registration	31
7. SIMPLIFIED PROCEDURE OF CONSTRUCTION PERMITS.....	33
PART 3 PROJECT AUDITING	34
GENERAL INFORMATION	35
APPOINTING AN AUDITOR IN GEORGIA FOR PROJECT EXPENDITURE VERIFICATION (IN COMPLIANCE WITH TOR FOR EXPENDITURE VERIFICATION)	36



ANNEXES	38
ANNEX I TEMPLATE OF THE LETTER TO THE EU DELEGATION IN GEORGIA	39
ANNEX II VAT REFUND APPLICATION	40
ANNEX III SUMMARY OF PROCEDURES	41
ANNEX IV DEFINITIONS OF MAIN TERMS.....	42
ANNEX V QUESTIONS AND ANSWERS	43



ACRONYMS AND ABBREVIATIONS

EaPTC	Eastern Partnership Territorial Cooperation Programme
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
CBC	Cross-Border Cooperation
EaP	Eastern Partnership
EU	European Union
EC	European Commission
ENP	European Neighbourhood Policy
ENPI/ENI	European Neighbourhood and Partnership Instrument/European Neighbourhood Instrument
PCA	Partnership and Cooperation Agreement
PRAG	Practical Guide to Contract Procedures for EU External Actions
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IAS	International Accounting Standards
WTO	World Trade Organisation
MoE	Ministry of Economy of Georgia
MoF	Ministry of Finance of Georgia
RS	Revenue Service
NIP	National Info Point
NGO	Non-Governmental Organisation
N(N)LE	Non-Entrepreneurial (Non-Commercial) Legal Entity
LEPL	Legal Entity of Public Law
VAT	Value Added Tax



INTRODUCTION

This Guide provides comprehensive information on national requirements and procedures to be followed in Georgia when implementing projects financed under the EaPTC Programmes.

It complements guidelines on the EaPTC rules to be followed provided by these programmes. The information in this Guide is based on the practical experience of national governmental bodies, regional and local authorities and NGOs in project implementation and financial management in Georgia.

This Guide will be particularly useful for EaPTC project Beneficiaries and Partners in Georgia. However, it will also be helpful for EaPTC project Partners from outside Georgia and potential Applicants/Partners from inside and outside Georgia who need to understand what is required to implement projects in the country. Although designed for projects under EaPTC programmes, the Guide may also have information relevant for other international technical assistance programmes in Georgia.

The Guide focuses on three phases of the project cycle: Start-up, Implementation, and Evaluation and Audit. It covers the following steps, with a number of relevant topics, in regard to national regulations and the experience of Georgian organisations in implementing international projects:

- Project start-up
- Project implementation; and
- Project audit and reporting.

The information in this Guide is focused on specific requirements related to project implementation in Georgia.

The Guide is designed to be a reference manual for users being able to find practical support on particular topics when it is needed.

ACKNOWLEDGEMENTS

This manual was produced by the Regional Capacity Building Initiative (RCBI) in June 2012 and updated in November 2014 by ALTAIR ASESORES, the consulting company implementing Eastern Partnership Territorial Cooperation Support Programme in EaP Countries.

This Guide was updated by the expert Mr. David Tsiskaridze.



Part 1

Project start-up



The Programme is funded
by the European Union

The Programme is implemented
by the Altair Asesores-led Consortium



OVERVIEW

EU project implementation in Georgia is coordinated from the Georgian side by the Office of the State Minister of Georgia on European and Euro-Atlantic integration and the State Minister of European and Euro-Atlantic Integration maintains the status of EU Programmes National Coordinator. Accordingly, the State Ministers Office is responsible for the overall coordination of all EU financed activities in Georgia, which implies inter-ministerial coordination, support in preparation and follow-up of international agreements and other regulatory documents related to the EU funded programmes, supervision and regular update of the EU ongoing project database, provision of EU Projects beneficiary institutions with a practical assistance regarding guidelines, rules and procedures for the access and management of the EU programmes. On the other hand, implementation of EU programmes/projects on a sector level is coordinated by line Ministries depending on the field of Project implementation. In case of EaPTC, implementation of the Programme activities is supervised by the Ministry of Regional Development and Infrastructure of Georgia. From the side of the EU, planning and implementation of the financed actions are carried out by the European Union Delegation to Georgia which supervises and monitors the EU programmes/projects through respective project managers.

CONTACTS**Office of the State Minister of Georgia on European and Euro-Atlantic integration**

Contact point: *Mr. David Bujiashvili, Deputy Head of EU Assistance department.*

Address: *7 Ingorokva str. Tbilisi, Georgia, tel/fax: +99532 998914*

E-mail: d.bujiashvili@eu-nato.gov.ge

Web-site: <http://eu-nato.gov.ge/en>

CONTACTS**Ministry of Regional Development and Infrastructure of Georgia**

Contact point: *Mr. Giorgi Tsakadze, Head of the Department of Self-governance and Regional Policy.*

Address: *Al. Kazbegi 12, Tbilisi, Georgia, tel: +995 32 2510800*

e-mail: g.tsakadze@mrdi.gov.ge

Web-site: <http://www.mrdi.gov.ge/en/main>

CONTACTS**EU Delegation to Georgia**

Contact point: *Mr. Stephen Stork, Deputy Head of Operation*

Address: *38 Nino Chkheidze St., Tbilisi, Georgia*

Telephone: *(995 32) 294 37 63 / 294 37 69*

E-mail: stephen.stork@eeas.europa.eu

Web-site: http://eeas.europa.eu/delegations/georgia/index_ka.htm



LEGAL STATUS OF THE EaPTC PROGRAMME**Legal Framework**

The Framework Agreement between Georgia and the EU Commission (signed on 23.02.2007 and ratified by the Parliament of Georgia on 25.02.2009)

The EU financed projects do not have legal status in Georgia, which means that the mentioned projects are not registered as legal entities. Consequently, the activities of the projects are regulated by the Framework Agreement between Georgia and the EU Commission (signed on 23.02.2007 and ratified by the Parliament of Georgia on 25.02.2009) which sets out the detailed provisions concerning the rules applicable to the performance of actions financed wholly or partly by the Community, notably regarding foreign exchange, tax and customs duties. For example, the Framework Agreement stipulates that any goods imported for the purpose of implementing actions financed by the Community shall not be subject to customs and import duties, taxes or any other charges having equivalent effect imposed by the Beneficiary Country or any administration thereof. Upon the request of the Commission, the Beneficiary Country shall ensure that the imports concerned will be released in time from the point of legal custom entry for delivery to the recipient as required for the normal implementation of the contract.



1. PROJECT REGISTRATION

Legal Framework

- The Framework Agreement between Georgia and the EU Commission (signed on 23.02.2007 and ratified by the Parliament of Georgia on 25.02.2009);
- Law of Georgia on Grant(adopted on 28.06.1996)

Projects financed by the EU including EaPTC projects are subject to registration by the EU Delegation of the Ministry of Finance of Georgia. Registration is necessary for the project to be able to use tax exemption preferences applicable to EU financed projects.

Note: Same rules are applicable for state and non-state organisations.

Georgian beneficiaries and partners, who are awarded a grant within the framework of the EaPTC Programme, should submit a copy of their project contract with the Managing Authority (GIZ) to the EU Delegation Contacting Unit and ask for inclusion of the project into the list of EU ongoing projects and starting tax exemption procedure. Based on the application, EU Delegation to Georgia includes the project to the list of EU ongoing projects and asks the Ministry of Finance (Revenue Service) of Georgia to register the project for VAT exemption. The Ministry of Finance registers your project in the VAT Exemption list and based on that, project beneficiary (or partner) makes any procurement of goods and services in the framework of your project contract with the use of the VAT exemption preferences (please see Chart 3).

Practical Tips

A grant recipient shall submit the following documents in a hard copy or electronic format to the EU Delegation to Georgia in order to obtain grant status:

- The grant recipient's application (Annex 1);
- The grant contract or Partnership Agreement (in case of Partner);
- Extract from the registry of grant recipient organisations;

CONTACTS

EU Delegation to Georgia

Contact point: *Contracting Service of the Delegation*

Address: *38 Nino Chkheidze St., Tbilisi, Georgia*

Telephone: *(995 32) 294 37 63 / 294 37 69*

E-mail: *Delegation-Georgia@eeas.europa.eu*



2. OPENING A BANK ACCOUNT

Legal Framework

- Order №24/04 of the President of the National Bank of Georgia dated 07.04.2011
- Budgetary Code of Georgia as amended on December 12, 2014, №2935

Overview

At the outset of the project, Beneficiary (Lead Partner) or Partner of the EaPTC project need to open a special bank account in the national and foreign currency according to the Order №24/04 of the President of the National Bank of Georgia dated 07.04.2011 approving instructions for opening bank account and performing operations in foreign currency. Any non-state organisations (non-entrepreneurial legal entity), can open one or more accounts in national or foreign currency in any commercial bank of Georgia.

To open an account, one should

- Visit a commercial bank
- Fill in an account opening application and submit respective documents (as listed below)
- Conclude a bank account agreement

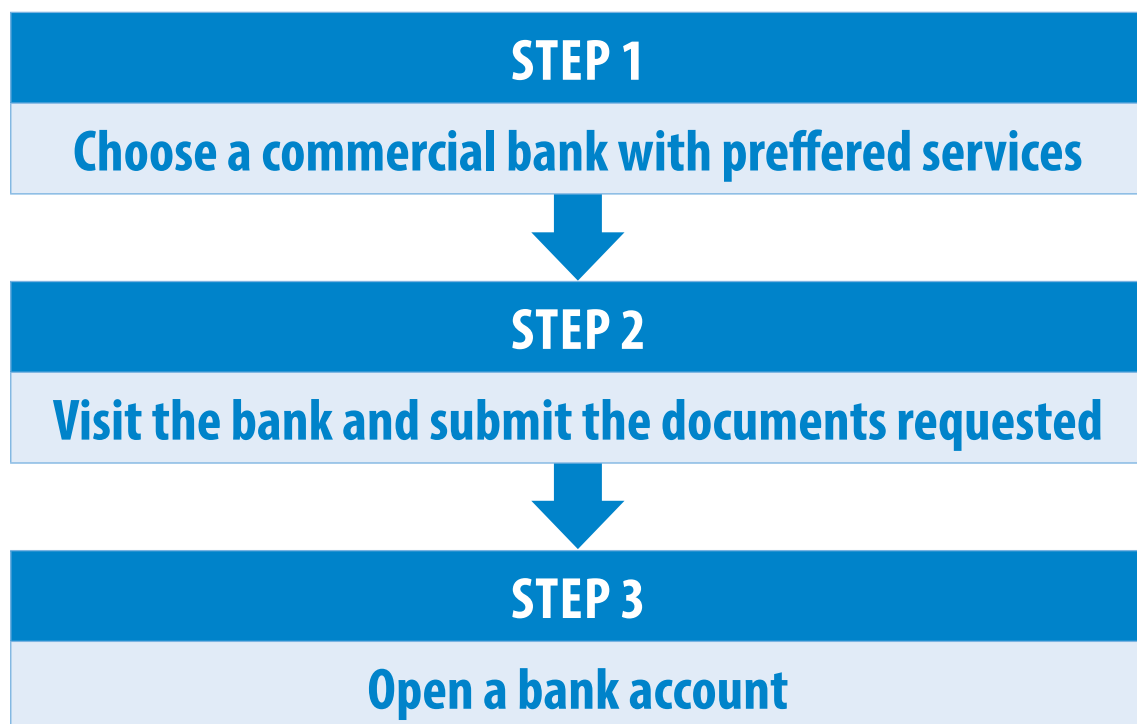
Contact body, contact details	Commercial banks of Georgia
List of documents to be submitted by non-state organisations	<ol style="list-style-type: none"> 1) Extract from the Register of Entrepreneurs and Non-Entrepreneurial (Non-commercial) Legal Entities 2) Notary certified registration application or charter (agreement of founders and members) of non-entrepreneurial (non-commercial) legal entity Note: If it is possible to print the charter or the registration application from the website: (https://public.reestri.gov.ge/enreg/main.php) the employee of the bank shall print it 3) Information about founders issued by the chairman of the board or the co-founding document 4) Authorised representative's application (Annex 2-187, 2-187-1) on founder holding 25% or more shares in the Company, together with the copies of their personal identification documents (ID cards or passports) 5) Signature sample of the manager of the non-entrepreneurial (non-commercial) legal entity and signature samples of all persons authorized to manage the legal entity account (this sample must be notary certified or by an authorized employee of the bank) 6) Original personal identification documents (ID cards or passports) of the manager of the non-entrepreneurial (non-commercial) legal entity and of all persons authorised to manage an account (these originals shall be certified by a bank employee)
Account type	Regular current account in national and foreign currency (for non-state organisations)

Practical tips	<p>Bank account opening and servicing fees differ from bank to bank. That is why one needs to study the market before opening a bank account. Check conditions offered by different commercial banks, make comparison and then select the best offer. In particular pay attention to:</p> <ul style="list-style-type: none"> • Costs for opening and service fee • Convenience (location of the bank, working hours) • Account access means (select the bank which provides banking services by phone, internet or other means of communication) • Interest rates • Service quality
Legal entity of public law (LEPL) and treasury public institution	<p>As of 1st January 2015, Legal Entity of Public Law (LEPL) and Treasury Public Institutions may not open accounts in commercial banks and are requested to open accounts in the State Treasury according to the Budgetary Code of Georgia (http://treasury.ge/4956) as amended on December 12, 2014, №2935;</p>

Chart For Opening Bank Account Procedure

Bank account opening procedure in Georgia is very simple and takes only 1 day after submission of documents.

Chart 1



3. SETTING UP THE TEAM: INTERNAL ORDERS AND CONTRACTUAL RELATIONS FOR HUMAN RESOURCES

Legal Framework

Labour Code of Georgia adopted on 27 December 2010

Overview

Georgian beneficiaries (Lead Partners) and Partners should set up a project team recruiting respective employees (Project Manager/Coordinator, Financial Manager, Assistant of the Project Manager/Coordinator) and contract experts under the Georgian Labour Code adopted on December 27, 2010.

To ensure smooth project implementation, Georgian Beneficiaries (Lead Partners) and Partners might need to adopt several internal orders to be used in their daily cooperation with donor organisations, state bodies, tax authorities and etc.

- Order on the appointment of the project manager/coordinator (name of the project manager, his or her mandate i.e. capacity to sign project financial and legal documents and correspondence with the EaPTC programme authorities, other responsibilities);
- Order on the appointment of the financial manager (name of the project financial manager, his or her scope of work and responsibilities);
- Order on the appointment of the project experts (names of experts, scope of their responsibilities in the project, preliminary number of working days to be worked in the project, sources of financing for their salaries);
- Order on project accounting policy, human resources and direct administrative costs.

The Beneficiaries must be aware of and abide by the Georgian Labour Code adopted on December 27, 2010.

It is recommended that the Beneficiary develops and maintains a clear, uniformly enforceable set of guidelines for employment (organisation's internal employment procedures) and provides information to employees on the organisation policies for employment.

Practical Information

Please take into account the following points:

- Remuneration for staff of the organisation participating in the project employed under labour contracts (full/part time, already in institution or specifically re-cruited): These costs shall be presented in the project budget under the budget line "Human resources".
- Remuneration for experts involved in the project not employed under a labour contract considered as service suppliers: These costs are included in the budget line "Other costs and services" and are subject to procurement procedures (like any contract for services).

There is no need for an order in case of contracting project experts under a service contract. You need to make corresponding changes in the staffing table of your organisation in case new experts are employed on the basis of labour contracts. The staffing table should include the position, name and salaries rates of these new experts.



4. SETTING-UP AN ACCOUNTING SYSTEM: SPECIFICITY OF FINANCIAL ACCOUNTING

Legal Framework	<ul style="list-style-type: none"> • International Accounting Standards (IAS); • Decree №11 of Accounting Standards Commission under the Parliament of Georgia “On Consideration of International Financial and Accounting Standards and Reporting” in 2004 • Special Accounting Standards for Non-entrepreneurial(Non-commercial) Legal Entities (adopted on 22.03.2005); • The instructions № 1321 to the Decree of the Minister of Finance of Georgia “On Accounting of Organisations Financed from the State Budget” adopted on 28.12.2007
------------------------	--

Overview

In general, legal entities of private law including non-state organisations perform accounting according to the International Accounting Standards (IAS). On 22.03.2005, special accounting standards for non-entrepreneurial (non-commercial) legal entities were adopted. The standard has been developed to cover accounting and financial statements of non-commercial legal entities (associations and funds) which perform no commercial activity and are registered on the basis of the Civil Code of Georgia adopted on 14.12.2006. Non-commercial legal entities, which carry out entrepreneurial functions along with their principal activity, also apply standards for commercial activity in their accounting (International Accounting Standards or IFRS for SME).

For non-state (non-commercial) organisations, the following legal requirements apply:

- The temporary accounting standard for non-commercial legal entities has been prepared based on the Decree of Accounting Standards Commission under the Parliament of Georgia “On Consideration of International Financial and Accounting Standards and Reporting” in 2004. In the course of preparation, experience of private sector of Georgia in accounting and reporting as well as international practice of non-government sector was taken into account.
- Decree of Accounting Standards Commission under the Parliament of Georgia “On Consideration of International Financial and Accounting Standards and Reporting” is the basis for use of accounting standards by non-commercial legal entities.
- The standard has been developed in the Georgian Federation of Professional Accountants and Auditors and adopted by the Accounting Standards Commission under the Parliament of Georgia.
- International Accounting Standards (IAS) should be applied if the present standard does not cover requirement of the non-commercial legal entity to competitive accounting object.
- Non-commercial legal entities are entitled to use IAS instead of this standard. In such case, a non-commercial entity shall indicate in notes and comments to the financial statement that the financial report is prepared on the basis of IAS.
- The general rules and accounting procedures for grant bookkeeping are described in the above-mentioned specifications.

For state treasury budget organisations, legal entities of public law the following legal requirements apply.

State, budgetary (treasury) organisations and legal entities of public law, which are funded from the state budget, should perform accounting and reporting according to the instructions of Decree of the Minister of Finance of Georgia № 1321 “On Accounting of Organisations Financed from the State Budget” adopted on 28 December 2007.

1. This instruction has been prepared according to accounting and reporting laws and defines basic methodological principles (fundamentals) of accounting for budgetary organisations.
2. The aim of the instruction is to define the basic accounting rules, conditions and reporting plans.
3. Accounting of the organisations is carried out according to the paper based model or electronic information system in compliance with this methodology and reporting plan defined by this instruction.
4. Structure of the accounting reports plan is prepared in line with the budgetary classification and requirements of international standards with regard to the financial reports are considered.
5. It is allowed that project beneficiary (or partner) performs accounting according to the eligible international standards and the financial reporting according to the national rules in case that this is considered by the project contract.



Part 2

Project implementation



The Programme is funded
by the European Union

The Programme is implemented
by the Altair Asesores-led Consortium



1. RECEIVING AND TRANSFERRING MONEY INTO AND OUTSIDE GEORGIA

Legal Framework	<ul style="list-style-type: none"> • Decree of the President of the National Bank of Georgia “On Carrying out a Transaction in a Foreign Currency” № 24/04, Chapter III, Article 11 • Paragraph 3 of Article 21 of the Law “On Activities of Commercial Banks” adopted on 27.03.2007 and paragraph 6 of Article 6 of the Law “On Facilitating the Prevention of Illicit Income Legalization” adopted on 20.12.2011
------------------------	--

Overview

According to Decree № 24/04 of the President of the National Bank of Georgia “On Carrying out a Transaction in a Foreign Currency” (Chapter III, Article 11), all transactions in foreign currency are allowed except for:

- payments related to supply of goods/rendering services on the territory of Georgia, if the mentioned transaction is not associated with export/import
- payments made for persons registered in a free industrial zone by a resident
- if a transaction in currency exceeds 30,000 Georgian Lari (GEL), a bank shall request additional documents (such as contracts, invoice, hand over certificate etc.) in support of such transaction. The bank shall keep copies of documents presented in compliance with this paragraph (copies may be kept in an electronic form).

On the basis of paragraph 3 of Article 211 of the Law “On Activities of Commercial Banks” and paragraph 6 of Article 6 of the Law “On Facilitating the Prevention of Illicit Income Legalization” commercial banks operating in Georgia may require additional information.

Practical info

When EaPTC Programme lead Georgian beneficiary receives a grant from the Managing Authority, it is obliged to transfer the respective amounts to its partner organisations (in Georgia, Armenia or Azerbaijan). As mentioned above, if a transfer amount exceeds GEL 30,000 (thirty thousand) or the same equivalent in other currencies, the bank requests the documents confirming the origin of such transfer. In that case, an organisation should submit copies of its partnership agreement and an invoice in such form as approved by the donor organisation.



2. FOREIGN CURRENCY EXCHANGE

Overview

There are no special national regulations concerning foreign currency exchange for Georgian Beneficiaries (Lead Partners) and Partners. Generally, for payments in GEL, project Beneficiary's accountant should convert a certain amount of Euro into GEL and transfer the GEL amount to the account in Lari. In this case, two documents should be submitted to the bank: an order for the conversion of a particular amount of Euro, and a payment order (order for the payment of a certain amount in GEL to the supplier from the account in GEL).

Practical info

However, you might have difficulties in reflecting exchange rates in the internal and project book keeping, as far as three exchange rates are applicable for accounting procedures in the framework of EU Financed projects:

The currency exchange (market) rate applied by a bank where project special accounts are opened: This is the rate used for converting from the Euro account to Georgian Lari accounts.

The National Bank currency exchange rate (www.nbg.gov.ge): The Georgian bookkeeping system requires that all transactions and bookkeeping should be denominated in Georgian National Currency – Lari. Therefore it's necessity to record the grant money received and paid in Euro in the internal bookkeeping of the Georgian Beneficiary. In this case, exchange rates of the National Bank should be applied.

The European Commission exchange rates "info euro" (<http://ec.europa.eu/budget/infoeuro>): "Info euro" rate is applicable for all project transactions. Exchange rate losses deriving from the differences in the abovementioned exchange rates and rates indicated by the European Commission cannot be covered by the EaPTC Programme grant funds. Currency exchange losses are not eligible costs and thus cannot be covered by the grant. They should be financed by the project lead partner/partner.

Note: Bookkeeping of the exchange rates is regulated by Article 73 of the Tax Code of Georgia defining the taxable object and tax liabilities in separate cases. This article states that transactions performed in foreign currency which are subject to taxation as well as when determining the customs value and import/export duties, foreign currency shall be calculated in Lari:

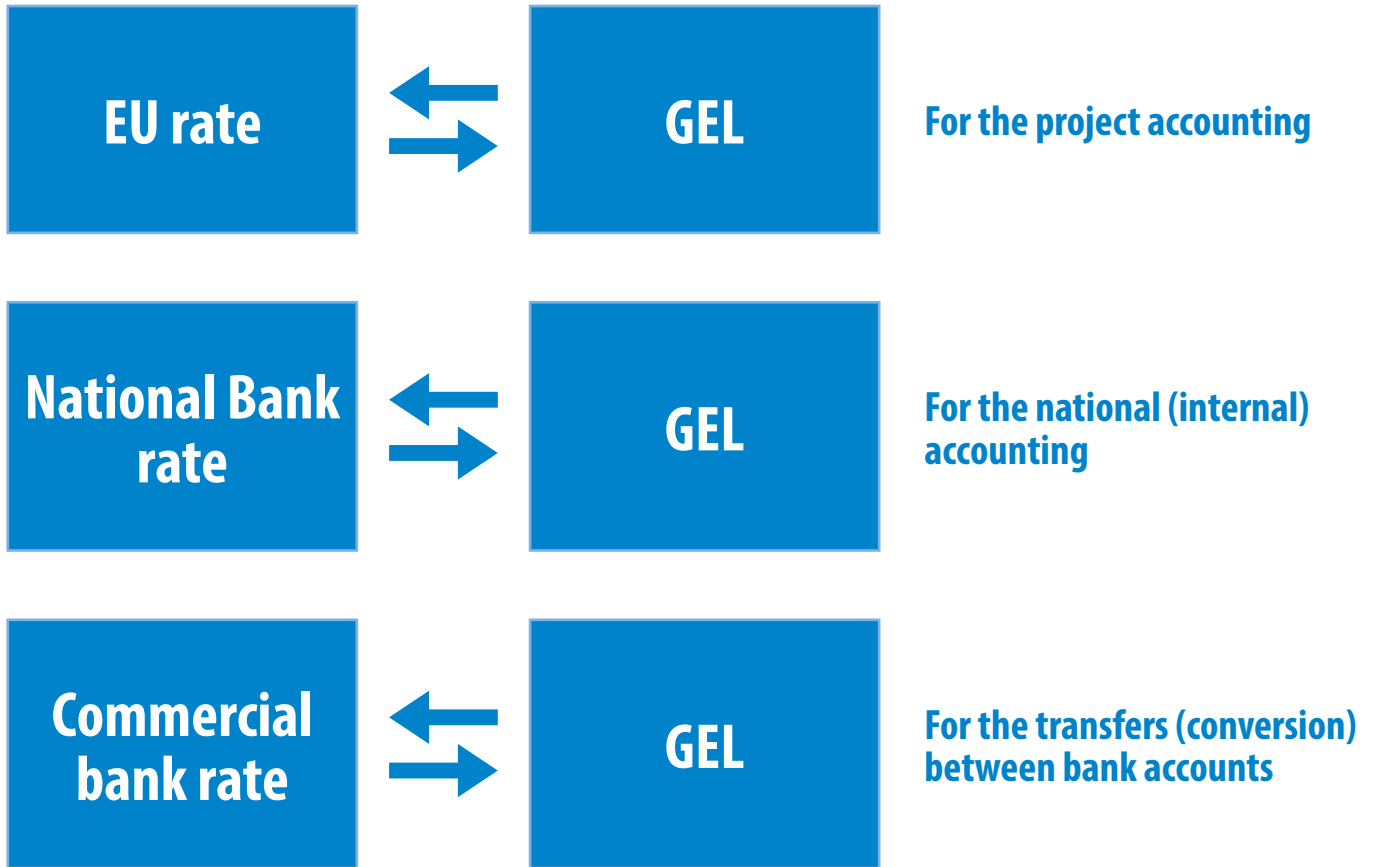
- a) at the official exchange rate of the National Bank of Georgia prevailing as of the day of a transaction/registration of a customs declaration, if applicable;
- b) at the rate that shall be determined as a published rate of foreign currency against Lari, including the rate published in other states against the currency for which official Lari exchange rate is available, provided an official rate of the National Bank of Georgia is not available as of the day of transaction/registration of a customs declaration.

Lead partner/partner should use "info euro" average rate when Financial Reports are prepared.



Chart 2

Foreign Currency Exchange Procedures



3. TAXATION ACCORDING TO SPECIFICITY OF A GRANT RECIPIENT

Legal Framework

Updated version of Tax Code of Georgia adopted on 17 September 2010

Overview

Taxation policy in Georgia is regulated by the updated version of the Tax Code of Georgia adopted on 17 September 2010 and other legal acts (such as Decrees of the President of Georgia and the Minister of Finance, Manuals of the Revenue Service etc.). According to the Georgian Tax Code, non-entrepreneurial (non-commercial) legal entities and public bodies are tax payers. Furthermore, non-entrepreneurial (non-commercial) legal entities are considered as organisations which carry out no commercial activity and therefore the taxation policy applicable to them varies from that applicable to commercial entities. However the same taxation rules are applicable for state entities. In general, they are requested to pay the following taxes: value added tax; income tax; property tax and import tax.

Value Added Tax

General Information:

Non-entrepreneurial (non-commercial) legal entities and public bodies, which do not carry out economic activity, but carry out a taxable import of goods or temporary supply of goods to Georgia, shall be considered VAT payers in respect of such import or temporary supply only without mandatory VAT registration.

It should be noted, that any organisation and public body could be obliged to apply to a tax agency for registration as a VAT payer within no later than two days thereafter if it carries out economic activity and the total amount of taxable transactions completed for any continuous period of 12 calendar months exceeds GEL 100,000.

VAT Exemption

There are two types of VAT exemption: with an input VAT right and without input VAT right. The exemption of a transaction with the input VAT right envisages that a transaction is not subject to VAT (is not taxed) and an input VAT right is applied.

VAT credited exemption means that a person may have the value of VAT reimbursed when the goods are purchased or services are received provided such goods/services were pre-exempted based on the further reimbursement principle and this is presented in the registered operations as an exempted operation being the subject of further reimbursement.

Non-Entrepreneurial (Non-Commercial) Legal Entity (N(N)LE) which performs no economic activity does not fall under the VAT credited exemption but there are some considerations to be taken into account in case of purchasing goods and receiving services in the framework of an EU grant. A service provider/dealer can find clarification on this matter in the Register specifying that project implemented by the respective organisation is tax exempted according to the VAT credited exemption. In that case, the value of the VAT is not mentioned in a tax invoice (goods/services) and the applicant is finally tax exempted.

VAT exemption with an input VAT right applies to supply of goods (services) and /or import if the mentioned is carried under international framework agreements ratified and put into force by the Parliament of Georgia. In compliance with agreements, supply of such goods and/or services and/or import of goods shall be exempted from VAT.

The exemption of a transaction without the input VAT right envisages that a transaction is not subject to a VAT (is not taxed) and an input VAT right is not exercised.

VAT exemption without VAT credited exemption principle means that a person who credited VAT during the purchase/service and the respective goods/service was exempted without the VAT credited exemption principle is requested to restore the credited VAT.



In case of Non-Entrepreneurial(Non-Commercial) Legal Entities(N(N)LE), this issue is especially important as far as import of the goods in the framework of the grant contract is exempted with respect to the grant provider and the beneficiary as well.

Goods/services purchased under the grant shall enable the project partners to claim a VAT refund or credit on these goods or services pursuant to the Tax Code: a tax payer, eligible for VAT exemption, shall submit an application mentioned below (see Annex II) to the tax authorities along with first copies of invoices issued for goods/services purchased under the program/project in order to get a VAT refund.

VAT can only be refunded or credited if the related statement is submitted within 3 months following the transaction.

According to the EU-Georgia Framework Agreement ratified by the Parliament of Georgia on 25.02.2009 with the purpose of tax exemption (including VAT), a donor organisation (European Commission) of a particular project provides the Revenue Service of Georgia with the information on organisations implementing the project (project beneficiary/partner) and updates such information in case of any changes therein.

Within 10 working days after the donor (European Commission) sends the notification to the Revenue Service of Georgia, project is registered in the electronic Registry of Tax Exempted Projects which is the subject of approval by the individual administrative-legal act of the head of the Revenue Service Department. The electronic registry is located at the web-page of the Revenue Service of Georgia (www.rs.ge). For further information on these procedures, please see Chart 3.

Tax exempted entity is required to obtain and fill in a tax invoice where the tax exempted entity specifies that it apply a zero rate in Tax Exemption field.

A good/service provider is obliged to check the Registry to identify whether applicants are listed or not before issuing the respective tax invoice.

As regards minimum 10% co-financing on the project level, beneficiaries have to pay VAT on goods and services purchased. In this case, VAT may not be considered as eligible project costs.

Chart 3

Tax Exemption Procedure for the EU EaP Territorial Cooperation Projects



Income Tax

General Information:

An income tax is a primary tax for non-entrepreneurial (non-commercial) legal entities and public bodies. When a salary is paid to employees, in most cases, the employer is obliged to charge the income tax and transfer it to the state budget. In order to properly proceed with charging of the income tax, it is necessary to take into account the tax rate, the payment rules, and the list of fully or partially exempted persons. The income tax rate to be applied in 2014 is 20%.

A physical or legal person paying income bears responsibility for withholding and transferring taxes to the budget. If amounts of tax are not withheld, a physical or legal person paying income is obliged to pay the tax not withheld and the associated fines and penalties to the budget. If the income tax is not withheld, a taxpayer shall pay taxes as well as the related fines to the budget. The amount of tax and associated fines and penalties may be paid by an income recipient on behalf of an income payer.

According to the Tax Code, some physical persons are entirely or partially exempted from income tax. Let us consider the situations to be taken into account in the implementation of an EaPTC Project. The following physical persons' income shall not be subject to income taxation:

- Grant received;
- Property received free of charge from a physical person up to GEL 1,000 during a tax year with the exception of property value received at no cost by employees from their employer.

Taxable income of up to GEL 3,000 received by the following individuals during a calendar year shall not be subject to the income tax:

- a) Citizens of Georgia who participated in the World War II and the battles for territorial integrity of Georgia
- b) A person who has been assigned an honorary title of "Kartlis Dead" ("Mother of Georgia")
- c) A single mother
- d) A person who has adopted a child (within one year from adoption)
- e) A person who has taken a child under foster care
- f) Taxable income received during a calendar year by an individual with many children residing in a high-mountain region (who has three or more dependent children under age 18) from the activity in the above-mentioned region, and the income tax payable for up to GEL 3,000 of taxable income received during a calendar year by an individual with one or two children (who has one or two dependent children under age 18) residing in a high-mountain region from an activity in the above-mentioned region shall be reduced by 50 per cent.

Taxable income of up to GEL 6,000:

- a) A person with disability since childhood as well as a person with apparent or strongly appar-ent disability.

In these cases, when a person would like to get a tax reduction of up to GEL 3,000, he/she must submit a certificate issued by a tax authority to his/her employer. In case of more than one source of payment, where concession is to be applied to, the choice is made by the person. Respectively, based on the certificate submitted by the contracted person to the employer, income tax costs should not be charged. The issue of tax charging and transferring to the budget is regulated by Article 154 of the Tax Code.

A tax agent which is a legal person, company/enterprise or entrepreneur (a natural person) shall withhold tax at the source of payment, specifically:

- a) A person, who is paying salary to an employee, with the exception of salary paid by a non-resident to an employee, when such costs do not belong to the expenditures of a permanent establishment of a non-resident.

Tax agents are liable to present information on the amount paid to a tax agency on a monthly basis but not later than the 15th day of the month following the reporting one pursuant to the rules set by the Minister of Finance of Georgia (defined under Decree № 996 dd. December 31, 2010 of the Minister of Finance of Georgia).

Practical Information

For a small-scale organisation, proper interpretation of the income received as a salary is often problematic as far as in many cases they believe that only salary considered under the employment contract is the case. Such interpretation is incorrect. According to the Georgian Tax Code, employment income shall include any income or benefit received by an individual as a result of contracted work (employment) including income received as pension or otherwise obtained from one's previous employer or income from one's future employer. Furthermore, according to the Georgian Tax Code, employment income shall include any consideration or benefit received by an individual as a result of hired work (employment) including income received as pension or otherwise obtained from one's previous employer or income from one's future employer.

Practical tips

For the purposes of declaration and calculation of income and other taxes, a tax payer should take into account the "discretion" principle. In the context of the Tax Code, it is better for a tax payer to apply to the Revenue Service with a request to issue the preliminary decision as stated in Article 47 of the Tax Code.

Specifically, the Revenue Service can issue a preliminary decision based on tax payer's application with regard to operations to be performed or finalized regarding the tax accounts rules and the tax obligations to be performed.

If a person is acting according to the preliminary decision procedure, law enforcement/control body is not allowed to take a decision that contradicts the preliminary decision rule and to impose any charges or penalties.

Property Tax

General Information:

According to the Georgian Tax Code, an organisation* should pay a property tax, which includes two main kinds of taxes: property tax (fix assets) and land tax. Also, the land tax comprises agricultural and non-agricultural land taxes. It should be noted, that non-entrepreneurial (non-commercial) legal entities and public bodies are payers of property taxes in the following cases:

- Property tax: In case of economic activity, they shall pay property tax at 1% rate (for further information, refer to Articles 201 and 202 of the Tax Code).
- Land tax: In any case, non-entrepreneurial (non-commercial) legal entity shall pay land tax, but public bodies are subject to this rule in case of carrying out economic activity (for further information, refer to Articles 203 and 204 of the Tax Code).

Respectively, the property of the organisation and the property provided under a leasing contract are tax exempted except for land and property used for an economic activity. It is important for a non-entrepreneurial (non-commercial) legal entity to thoroughly analyse its activity to make sure no economic activity as envisaged by the Tax Code is carried out and it operates fully in line with the Law on Entrepreneurship.

Any activity is considered to be an economic activity if it is performed with the purpose of getting profit/income or compensation, despite the consequences of such activity.

Below is the list of activities not considered as economic activities:

- Activities of the Government, independent regulatory bodies and local self-governance entities provided such activities are directly associated with functions delegated to them by the State except for the activities related to the provision of services for financial consideration on a contractual basis
- Charity
- Religious activity
- Employment
- Placement of financial resources at banks and other crediting organisation as deposits.

*Note: *The term 'Organisation' means a non-entrepreneurial (non-commercial) legal entity and a public body according to the Georgian TAX Code.*

Import Tax

General Information

Import duties, such as an import tax, are paid upon importation of goods into the customs territory. An import tax payer means a person* who transfers goods across Georgia's customs border other than for export purposes. Import tax rates are differentiated by types of goods. The Tax Code applies 12 per cent or 5 per cent import tax rates. Import taxable object shall be defined as the customs value of goods (including transportation, insurance and overheads) at the time of crossing the Georgia's customs border, unless otherwise prescribed by the Code.

The following items are not subject to import tax:

- The import of goods funded under grants or a preferential credit provided by a foreign country government body and/or an international organisation, at least 25 per cent of which is a grant component. The Ministry of Finance of Georgia shall calculate the grant element according to the Decree of the Parliament of Georgia.

Practical Information

A grant recipient shall submit the following documents to the Revenue Service in a hard copy or electronic format in order to obtain grant status:

- The grant recipient's application;
- The grant contract or a copy of the written decision to award the grant which meet the requirements set forth in the Law of Georgia "On Grants"
- A copy of the charter of the grant recipient organisation
- Invoice for imported goods (or a pro-forma invoice or a copy of the invoice)



*Note: *A person means a physical person or a legal entity under the Georgian Civil Code and a physical person, company or organisation under the Georgian TAX Code.*

Translation certified by a public notary shall accompany each document in a foreign language presented by the grantee to the Revenue Service. The Revenue Service informs of its decision to give grant status to the goods imported to Georgia within 10 working days upon receipt of complete documents.

Period of the Tax Limitation

General Information:

1. The period of limitations for assessment of taxes and submission of a tax notice to a taxpayer about his/her tax liability shall be 6 years unless otherwise stipulated by the Code.
2. The timeframe determined under paragraph 1 of this article shall be counted from the closure of the relevant fiscal year.
3. The timeframe for charging of a sanction (except for interest) stipulated under this Code shall be six years unless otherwise determined by this Code.

It should be mentioned that the limitation for submitting a tax payer's request to charge a tax to the tax payer or for setting tax liability on a tax notice or for making request from a tax payer shall be 5 years in the period from the 1st of January 2015 through the 1st of January 2016, 4 years from the 1st of January 2016 through 1st of January 2017 and 3 years as from the 1st January 2017.



4. BUSINESS TRIP: PAYING TRAVEL COSTS AND PER DIEM TO GEORGIAN AND FOREIGN EMPLOYEES/EXPERTS

Legal Framework	<ul style="list-style-type: none"> • Decree of the Minister of Finance of Georgia № 220 dd. April 5, 2005 “Defining the Norms for Business Trips for Employees” • Article 101 of the Tax Code of Georgia • Decree of the President of Georgia №231 dd. April 20, 2005 “Defining the Norms for Business Trips for the Civil Servants” • Annex H Daily Allowance Rates (Per Diem) / GIZ
------------------------	---

Participation of Georgian and foreign employees/experts in the project activities within Georgia, Armenia and Azerbaijan

General Information

Business trip costs are included to the initially agreed project budget. Accordingly, the beneficiary submits the relevant budget including the itinerary of a business trip and the donor approves (endorses) the amount of allocation for a project staff member’s or expert’s visit.

Business trip costs incurred as a part of a project are subject to 2 (two) different regulations: national regulations of the beneficiary (partner) country and GIZ Regulations. Both define certain norms on the expenses related to business trips.

The following rules are applicable according to the Georgian legislation.

- Non-state organisation and legal entities of private law:

Decree of the Minister of Finance of Georgia N 220 dd. April 5, 2005 “Defining the Norms for Business Trips for Employees” sets forth daily allowances for business trips and the limits of travel costs not subject to taxation. An organisation can exceed those limits and pay an income tax on any extra amount.

In case of compensation of business trip and travel costs, an employed person is provided by the special funds and is required by law to calculate and withhold an income tax whenever such limits are exceeded.

This is regulated by Article 101 of the Tax Code of Georgia and by the Decree №220 of the Minister of Finance of Georgia on “Defining the Norms for Business Trips for Employees”.

- Legal entities of public law and treasury organisations:

Decree of the President of Georgia № 231 dd. April 20, 2005 “Defining the Norms for Business Trips for Civil Servants” sets forth daily allowances for business trips and limits of travel costs not subject to taxation. An organisation can exceed those limits and pay an income tax on any extra amount. The same daily allowances, limits and rules are applicable for state organisations and non-state organisations.

Practical Information

According to the Tax Code, any income paid as a salary does not include:

- Reimbursement of travel expenses to employee as specified by the Ministry of Finance.

Business trip per diem rate to be reimbursed to employee within the country under employer’s order is GEL 15 per day multiplied by the number of days spent in business travel including weekends and holidays.



In case of a business trip at a distance up to 30 km when return to work (home) is possible on the same day, travel expenses are subject to reimbursement only. Reimbursement rates of travel expenses and accommodation shall be defined on the basis of supporting documents (such as a contract, invoice, receipt etc.) based on expenses actually incurred.

Reimbursement of business trip expenses is to be paid to an employee and, respectively, the limits set forth by law apply for an employee only. An expert, who provides services on a contractual basis as a part of a project, shall not be considered as an employee. Therefore, per diems reimbursed to him/her are fully subject to income tax.

With regard to international experts, who are not staff members, one's residence shall be identified first to determine taxation according to Article 34 of the Tax Code. In most cases, international experts are non-residents; so taxation of amounts reimbursed to him/her may vary.

According to the Framework Agreement ratified by the Parliament of Georgia, tax exemption preferences (including VAT exemption) may be applied for EU financed grants. The services provided by a non-resident is VAT exempted based on "reverse charge" principle (see Chart 3). As regards to the services provided under the 10% co-financing funds, a beneficiary has to pay VAT to the State Budget according to Article 176 of the Georgian Tax Code based on "reverse charge" principle.

Practical Information

Reimbursement rates for per diem costs and accommodation for an employee during his/her short-term business trips outside the country are determined by Decrees of the Minister of Finance and the President. Please find below the rates defined for business trips as a part of EaPTC financed projects in South Caucasus countries.

Per diem rates for business trips of Georgian employees in South Caucasus

Country	Currency	Per diem amount (daily allowance)	Accommodation at daily rate
<i>Armenia</i>	USD	35	105 in Yerevan, 53 on the rest of the territory
<i>Azerbaijan</i>	USD	35	125 in Baku, 60 on the rest of the territory

Practical tips

- When an employee hired by an organisation has a business trip in or outside Georgia, a manager of such organisation shall issue an order specifying employee's details, duration of his/her trip, destination and purpose of travelling.
- If amounts of travel allowance to be reimbursed exceed the limits specified by the Tax Code, the difference shall be subject to income tax.

GIZ Regulations apply another system for business trip expenses from those defined by Georgian laws. Please see Annex H: Daily Allowance Rates (per diem) / GIZ at <http://eaptc-ma.eu/en/page/cat/1/armenia---georgia/>

In the programmes financed by the European Commission (except for EaPTC), the EU per diem rates are normally applied. For details about EU per diem rates, please visit:

http://ec.europa.eu/europeaid/sites/devco/files/perdiem-2013-07-corrigendum-3-febr-2014_en.pdf



5. SPECIFIC ISSUES OF THE ECONOMIC ACTIVITIES OF NON-ENTREPRENEURIAL (NON-COMMERCIAL) LEGAL ENTITIES

Legal Framework

Civil Code of Georgia adopted on 14.12.2006, №3967

General Information

According to the Civil Code of Georgia, a non-entrepreneurial (non-commercial) legal entity is allowed to carry out secondary economic activity; however no switch to such kind of activity is permitted. Otherwise, the organisation will be liquidated by a court decision.

As per the Tax Code, an organisation which carries out an economic activity is considered an enterprise within the scope of such activity and all requirements specified for an entrepreneurial entity under this Code shall apply. An organisation shall separate the income and the relevant expenses related to the economic activity from its gross income and expenses and this can be a rather complicated process. Separation of expenses related to economic activities on one hand and charitable activities on the other hand is generally a problematical issue especially in case of payments for utility services, fuel, vehicle depreciation costs etc.

The organisation shall calculate the profit received from the economic activity when it carries out secondary economic activity, submit the relevant tax declaration and pay the relevant tax.

Practical Information

If an organisation carries out an economic activity, the part of its property and activities directly associated with its economic activity shall be subject to taxation.



6. PROCUREMENT PROCEDURES: PROCUREMENT SUPPLY, SERVICE AND WORK; PURCHASING EQUIPMENT AND SUPPLIES: ACQUISITION AND REGISTRATION

Legal Framework	<ul style="list-style-type: none"> • The Law of Georgia “On Public Procurement” adopted on March 31, 2005 • Annex IV (Section 2) to the Grant Contract requiring all Beneficiaries and Partners to respect the rule of nationality and rule of origin.
------------------------	--

Overview

Procurement procedures of public bodies are governed by the Law of Georgia “On Public Procurement” adopted on March 31, 2005. As regards to non-state entities, application of this Law is not mandatory and such entities normally apply their internal procurement procedures.

Purchases made by public authorities or public bodies

Areas/activities outside the scope of the Law of Georgia “On Public Procurement” are specified therein. This Law does not apply to employment of non-staff employees. A public entity may hire a non-staff employee as a part of a project without tendering procedure.

When a grant contract includes procurement of goods or services by a grantee (a public entity), the procurement procedures stipulated by the law should be followed:

- **Simplified procurement:** This procedure applies when the value of goods and services subject to procurement does not exceed GEL 5,000 during a year. There are some other exceptions stipulated by this Law.
- **Simplified electronic tender:** This procedure applies when the value of goods and services subject to procurement does not exceed GEL 200,000.
- **Electronic tender:** This procedure applies when the value of goods and services subject to procurement exceeds GEL 200,000.

The same procurement procedures are summed up during a year and public procurements may not be split.

Practical tips	<ul style="list-style-type: none"> • Limitations stipulated under this Law should be studied by a public entity acting as partner or beneficiary including the information presented to the beneficiary. • Georgian procurement laws do not provide for the above mentioned “rule of origin” and “rule of nationality”. Nonetheless, Georgian project partners shall respect the “rule of origin” and the “rule of nationality” under the Grant Contract.
-----------------------	---

Purchases made by non-entrepreneurial (non-commercial) legal entity

Overview

The Programme requirements related to procurement procedures within the framework of the EaPTC projects should be respected according to *Chapter 3 – Procuring Services, Supplies and Works of the EaPTC Project Implementation Manual*. In other words, Georgian Beneficiaries/Partners must only consider the EU Programme procurement procedures whenever the

purchase of goods, works or services is financed under the EU Programme and (or) from non-state financial sources.

However, the Law of Georgia “On Public Procurement” should be applied by any organisation which procures goods, services or works through co-financing by local state budgets or through specialised public funds.

Procurement procedures applicable under EaPTC Grant Contract Annex IV to Grant Contract.

Any transfer of property rights between Beneficiary and Project Partner is based on a separate agreement between these two parties. It is called “Contract on Transfer of Property without Compensation” and should be accompanied by acceptance certificates to be signed by both parties.

In order to ensure that the property has been recorded in the balance sheet of the partner organisation, Beneficiary should obtain the following documents from Partner:

- Inventory sheets (in case of fixed assets) indicating persons responsible for items of equipment
- Account sheet (Account “Fixed assets” or “Non-durable goods”)
- Registers (records in the books) confirming transfer and acceptance of fixed or current assets on the balance sheet.

The common rules applicable to all tender procedures are based on the EU *Practical Guide to Contract Procedures of EU External Actions (PraG)* and are described in EaPTC Project Implementation Manual.

The common rules applicable to all tender procedures are described in Section 3 of the EaPTC Project Implementation Manual, Annex IV (and are therefore not applicable to public bodies in EU Member States):

The tender documents must be drafted in accordance with best international practice. The Beneficiary and Partners may use the models relating to external actions published on the EC website, namely Chapters 3 (Services), 4 (Supplies) and 5 (Works) and related annexes of the PraG (note, this is not compulsory). In case of doubt, you could compare your procedures with the EC best practice as described in these chapters and annexes and adapt as needed.

- The timeframes for receipt of tenders and requests to participate must be long enough to allow interested parties a reasonable and appropriate period to prepare and submit their tenders (e.g. in PraG: 60 days for Supplies and 90 days for Works for international tenders, 30 days for Supplies and 60 days for Works for local tenders).
- All requests to participate, and tenders which are declared as satisfying requirements, must be evaluated and ranked by an evaluation committee on the basis of exclusion, selection and award criteria announced in advance.
- This committee must have an odd number of members, and at least three members, with all the technical and administrative capacity necessary to give an informed opinion on the tenders. Annex IV (section 2) of the grant contract oblige all Beneficiaries and Partners to respect the rule of nationality and rule of origin.

**Applicable procurement thresholds under EaPTC Grant Contract
(Annex IV to Grant Contract)**

Services	≥ €300,000 International restricted tender procedure	< €300,000 but > €20,000 Competitive negotiated procedure without publication (at least 3 offers)		≤ €20,000 Single tender (direct award) For service and supply contracts, a payment may be made against invoice without prior acceptance of a tender if the expenditure is ≤ €2,500
Supplies	≥ €300,000 International open tender procedure	< €300,000 but ≥ €100,000 Local open tender procedure	< €100,000 but > €20,000 Competitive negotiated procedure without publication (at least 3 offers)	
Works	≥ €5,000,000 International open tender procedure	< €5,000,000 but ≥ €300,000 Local open tender procedure	< €300,000 but > €20,000 Competitive negotiated procedure without publication (at least 3 offers)	

For more details please visit: <http://ec.europa.eu/europeaid/prag/document.do?chapterId=2.4.1.&id=221>

Purchase of equipment subject to registration

Property subject to registration

General Information

In Georgia some equipment is subject to mandatory state registration. This process is regulated by the laws of Georgia. Due to the specific nature of the Project, the focus should be put on the registration procedure of 2 types of property:

- Registration of real estate (property acquired under ownership rights).
- Registration of mechanical transport facilities.

Public registration and information is provided by the Agency, which is a registering body empowered by public law. This Public Registry contains information on registered rights to immovable items, public-law limitations, tax mortgage and registered ownership of movable items and intangible property.

Data registered in the public registry and documentation kept by the registering body is public and is available to everybody. The following documents must be registered in the public registry:

- Ownership
- Mortgage
- Rent, sub-rent
- Lease, sub-lease



- Lending
- Etc.

When either party is a private entity and a rent or sub-rent is expected to last more than 1 year, a contract for such transaction shall be subject to registration in the Public Registry. Rules of registration of mechanical transport facilities are specified by the Minister of Internal Affairs and apply in the following cases:

- Re-registration of auto car body
- Re-registration of motor truck cab or frame
- Re-registration of van truck or bus body
- Re-registration of a vehicle motor

Practical information

Rental and sub-rental contracts for more than one year are subject to registration. This procedure is defined by the “Public Registry”. An administrative fee is GEL 50. For registration fees for mechanical transport facilities please refer to the table below:

Re-registration of auto car body	GEL 40
Re-registration of motor truck cab or frame	GEL 32
Re-registration of van truck or bus body	GEL 63
Re-registration of a vehicle motor	GEL 38

7. SIMPLIFIED PROCEDURE FOR CONSTRUCTION PERMITS

Legal Framework	Decree of the Government of Georgia N 54 dd. March 24, 2009 “Defining Rules and Norms for Construction Permits”
------------------------	--

Overview

The Territorial Cooperation Programme may support (1) “soft” projects, i.e. intended to bring about structural economic and social changes and not predominantly concerned with construction or equipment delivery; and (2) projects involving small-scale infrastructure development. The programme shall give priority to “soft” projects that target activities related to institutional building, training, policy reform, exchange of experience or similar, and the projects that demonstrate a sound balance between the “soft” element and development of physical infrastructure. Projects under the EaPTC programme may include some little construction (rehabilitation) component depending on the budget and purpose of the project. Such component might be part of the project with the budget under the 250,000 euro.

General information

The customer shall obtain the work design initial data required to obtain permission for carrying out construction. The initial data (documents, information) are as follows:

- Document evidencing the ownership of property or use of land plot(s) (cadastral map);
- Topographic map of a land plot(s) in actual situation (scale 1:500);
- Description of buildings on land plot(s) (basic data);
- City development documents, including regulation plan on development approved by the city hall, when land plot(s) are in effective area of city development document;
- Other data (documents, information) if considered necessary;

Simplified Procedure of Permit Issuance

- The customer or its representative is empowered to get the construction through a one-stage-approval procedure (corresponding to the first stage described below), according to the rule of the public administrative case proceeding stated with Chapter IX of the General Administrative Code.
- A permit seeker should submit all the documents necessary to get the construction permit to the administrative body issuing such permit.
- If the documents related to construction implementation are already approved (except for cultural heritage protection sites) and if additional geological reports can be provided, the construction permit is issued only through a one-stage-approval procedure.
- The building permit for construction works on the immovable monument of cultural heritage is issued only through a three-stage approval procedure (corresponding to the third stage described in the table below).

The customer may choose the two-stage administrative procedure. In this case, the timeline is as follows:

- Stage I: Review of conditions of the constructional land plot usage within 30 days
- Stage II: Issue of the construction permit within 20 days

New Construction:

A new construction means construction on a part of a land plot where no buildings have been built or where existing building are being totally replaced.



Part 3

Project auditing



The Programme is funded
by the European Union

The Programme is implemented
by the Altair Asesores-led Consortium



Legal Framework

EC Grant Contract application, Terms of Reference for Expenditure Verification

General information

The project beneficiary and partners must appoint an auditor in Georgia to perform project expenditure verification (In compliance with IFAC and according to the Terms of Reference for Expenditure Verification). Subject to specific programme requirements (as described in the Grant Contract), beneficiaries/partners are requested to perform an expenditure verification and to report in connection with a European Union financed grant contract for external actions.

The expenditure verification report should be produced by an auditor: a) For non-state organisation – by a member of a professional organisation that is a member in good standing of the International Federation of Accountants (IFAC) and b) For state entities – by an auditor who holds a certificate by Public Audit Institute; and both commit to undertake this engagement in accordance with the IFAC standards and ethics as set out in the Terms of Reference for Expenditure Verification attached to the Grant Contract.



APPOINTING AN AUDITOR IN GEORGIA FOR PROJECT EXPENDITURE VERIFICATION (IN COMPLIANCE WITH TOR FOR EXPENDITURE VERIFICATION)

Legal Framework

- Law of Financial Audit and Accounting adopted on 29.06.2012
- Law of the State Audit Service adopted on 22.06.2012

Overview

Beneficiaries will receive a pre-financing at the start of the implementation. Further payments, in the course of the implementation, will be conditioned to the submission, together with financial report and expenditure verification report. The beneficiaries are requested to submit a financial report and an expenditure verification report according to the regulations prevailing to a European Union financed Grant Contract for external actions. The second instalment of the grant to the Beneficiary will depend upon this expenditure verification reports. The expenditure verification must be carried out in compliance with the Terms of Reference for Expenditure Verification attached to the Grant Contract.

The expenditure verification report should be produced by an auditor who commits to undertake this engagement in accordance with the IFAC standards and ethics as set out in the Terms of Reference for Expenditure Verification, attached to the grant contract.

The auditor examines the costs declared by the Beneficiary.

- The Beneficiary is responsible for providing a Financial Report which should comply with the terms and conditions of the Grant Contract. It should be possible to reconcile the Financial Report to the Beneficiary's accounting and bookkeeping system, primary documents (Invoices, contracts, hand overs and etc.) and to the underlining accounts and reports. The Beneficiary is responsible for providing sufficient and adequate information, both financial and non-financial, in support of the Financial Report.
- The report on this expenditure verification should describe the purpose, the agreed-upon procedures and the factual findings of the engagement in sufficient detail in order to enable the Beneficiary and the Contracting Authority to understand the nature and extent of the procedures performed by the Auditor and the factual findings reported by the Auditor.
- The use of the Model Report for an Expenditure Verification of an EC Grant Contract stated in ToR is compulsory.

Practical Information

The main factors which should be taken into account in the process of selecting a Georgian auditor are the following:

1. For non-state entities, the auditor should be listed in the register maintained by a professional organisation that is a member in good standing of IFAC or, for the time being until 2018, may only have a certificate approved by the Auditing Council at the Parliament of Georgia;

As the Georgian Federation of Professional Accountants and Auditors (GFPA) is a member of the IFAC, corporate members of the Georgian Federation of Professional Accountants and Auditors are allowed to perform the project expenditure verification according to the Georgian Law "On Financial Audit and Accounting".

The audit companies and independent auditors in Georgia can be found in the list of the Corporate Members of the Georgian



Federation of Public Accountants and Auditors (member of IFAC):

<http://www.gfpaa.ge/site/images/stories/gfpaa/wevroba/korpxar.pdf>

2. For state entities (budgetary organisations and legal entities of public law):

The auditor should have a Certificate issued by the State Audit Institute according to Article 36/4 of Law “On the State Audit Service”.

Standards and Ethics

The Auditor shall undertake this engagement in accordance with:

- The International Standard on Related Services (‘ISRS’) 4400 Engagements to perform Agreed-upon Procedures regarding Financial Information as promulgated by the IFAC;
- With the Code of Ethics for Professional Accountants issued by the IFAC. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the Contracting Authority requires that the Auditor is independent from the Consultant and complies with the independence requirements of the Code of Ethics for Professional Accountants.



Annexes



The Programme is funded
by the European Union

The Programme is implemented
by the Altair Asesores-led Consortium



ANNEX I**Template of the Letter to the EU Delegation in Georgia to provide registration with the Tax Exemption Registry of the Ministry of Finance of Georgia (Revenue Service).**

To: EU Delegation in Georgia
38 Nino Chkheidze St. Tbilisi, 0102 Georgia

Dear Mr. /Ms.

I would like to inform you that in the framework of the EU funded EaPTC Programme <name of the beneficiary organisation> has been awarded the EU grant project <name of the project>.

Hereby I would like to kindly ask you to provide inclusion of the project into the Tax Exemption Registry of the Ministry of Finance of Georgia (Revenue Service).

Attached are provided also:

1. Copies of the Grant Contract/Partnership Agreement.
3. Extract of the organisation by the Registry Body.

Number of pages _____

Best regards,



ANNEX II

Application on VAT refund

_____ (name of tax authorities)

_____ (name of a taxpayer)

_____ ID No

Please, refund amount paid on goods/services purchased under programme/project pursuant to Part 5 of Article 168 of the Tax Code of Georgia to the following bank account:

_____ (Bank name and details)

_____ (account No)

Attachment:

Tax Invoice quantity

Tax Invoice on page

Applicant's signature _____

_____ (date)



ANNEX III**Summary of procedures**

PROJECT START-UP	
Project registration and notification	<p><i>Non-entrepreneurial (non-commercial) legal entities and public bodies</i></p> <p>Projects financed by the EU have no legal status in Georgia and are not registered in any state administration body.</p> <p>However, the Projects shall provide a written notification to the EU Delegation to Georgia to be listed with them. The notification will allow the Project to start the tax exemption procedures.</p>
Opening a bank account	<p><i>Non-Entrepreneurial(Non-Commercial) Legal Entities</i></p> <p>Abovementioned bodies and organisations can open one or more accounts in national or foreign currency with any commercial bank of Georgia.</p> <p>To open an account, one should</p> <ul style="list-style-type: none"> • Visit a commercial bank • Fill in an account opening application and submit relevant documents • Conclude a bank account agreement. <p>Assuming the applicant has provided all requested documents, the bank opens a bank account immediately.</p> <p><i>Public Bodies: Legal Entity of Public Law, Treasury Budget Institution and other institutions:</i></p> <p>According to the Law “Budgetary Code” of Georgia, above mentioned organizations can open an accounts only in the State Treasury.</p>

ANNEX IV**Definitions of main terms**

Audit	Verification of the Lead Partner/Partner accounts, including the project accounts. It is carried out either by contracting authority, the European Commission, the European Court of Auditors or an external auditor on their behalf. It is NOT the expenditure verification to be attached by the Lead Partner to the requests for payment.
Contracting Authority	The usual PRAG term for the institution responsible for awarding and contracting grants.
European Anti-fraud Office	EC body responsible for investigation when there is suspicion of fraud.
European Court of Auditors	The EU Institution established to carry out the audit of EU finances. As the EU's external auditor it contributes to improving EU financial management and acts as the independent guardian of the financial interests of the citizens of the Union.
Expenditure verification	A report on the verification of project expenditure, produced by an approved auditor who meets the specific conditions of the Terms of Reference for expenditure verification (Annex VII of the grant contract).
Monitoring	A system ensuring a regular review of project activities to keep track of how a project is progressing in terms of resource use, implementation, delivery of results and the management of risks.
Narrative Report	Part of the Interim and Final Reports describing project implementation.
Non-state non-profit organisations	Non-entrepreneurial (non-commercial) legal entity (as defined by the Law on Civil Code of Georgia adopted on 27.06.1997, Chapter 27 from 14.12.2006)
Lead Partner	Organisation which signs the grant contract with the Contracting Authority on behalf of the project partners and bears overall responsibility for project implementation.
Partner/project partner	Organisations participating in jointly designing and implementing a project together with the Lead Partner. They sign a Partnership Agreement with the Lead Partner.
Public bodies	<ul style="list-style-type: none"> • Legal entity of public law (as defined by the Law "On Legal Entities of Public Law" adopted on 28.05.1999, Chapter 2) • Treasury Budget Institution (as defined by the Law "On Public Bodies" adopted on 31.10.1997, Chapter 2.) • Local self-government bodies – community council; council of elders; and head of community: mayor in an urban community, head of village in a rural community (as defined by the Law "On Public Bodies" adopted on 31.10.1997, Chapter 2.)



ANNEX V**Questions and Answers**

Question	Why to open a bank account?
Answer	<p>Bank account is a convenient and easy way to manage your financial means. They guarantee:</p> <ul style="list-style-type: none"> • Safety of your financial means – Banks will guarantee the safety and accessibility of your money. • Management of your cash flow – If you have a bank account, you will receive a monthly statement from the bank, where your receipts and expenses are reflected. It will give you an accurate picture of your cash flow and therefore will help to plan your budget accurately. • Constant availability of funds – You can deposit money into and take money out of your account at any time during your bank's business hours. • Interest income – Many banks offer an interest rate when you put your money in a bank account. The interest will help your money grow over time.
Question	Where can I open a bank account?
Answer	In Georgia, bank accounts can be opened in banks only.
Question	When does a foreign citizen have a right to enter Georgia?
Answer	A foreign citizen may enter the territory of Georgia if he/she has a valid passport, on the basis of a document attesting entry visa or residency status and with the permission of the body implementing border control if no other order is defined by the legislation of the Georgia or international treaties.
Question	For how long can the foreigner, having a right to enter Georgia, stay in Georgia without a visitor visa?
Answer	The citizens of those states, for whom visa-free regime is defined in Georgia, may stay in the country for 90 days and from 180 days duration if no other term is defined by international treaties of Georgia. For detailed information regarding new visa regulations due to enter into force from the 1st of September 2014 visit website at: www.geoconsul.gov.ge/en/aboutUs .
Question	Where can I obtain an entry visa to Georgia?
Answer	Visas are issued in diplomatic missions and consular posts or special cases at the border crossing points of Georgia. However for the citizens of Armenia, Azerbaijan and the EU visa free regime is applicable (for more information, please visit: http://mfa.gov.ge/index.php?lang_id=ENG&sec_id=96).

Question	Are there special visa requirements for Armenian and Azerbaijani partners?
Answer	There are no special requirements for Armenian and Azerbaijani partners to enter the territory of Georgia. There is a visa-free regime for citizens with Armenian and Azerbaijani passports to enter the territory of Georgia. Armenian and Azerbaijani citizens can stay on the territory of Georgia for 90 days from 180 days duration.
Question	If an employee had a business trip to Akhaltsikhe and did not submit supporting documents on actually incurred expenses for transportation and accommodation, how travel payments should be done?
Answer	According to the Decree of the Minister of Finance of Georgia №220 dd. April 5, 2005, travel and accommodation costs should be fully transferred to the employee according to the minimum rates defined by the Decision before the trip. Reimbursement rates of travel and accommodation expenses shall be defined on the basis of supporting documents on actually incurred expenses within some days at the end of travel, but not more than maximum rates defined by the budget of the project. Also, look to the contract and consult the EaPTC programme administrator.
Question	The NGO organises free trainings, participants of which will be also representatives from other institutions. In this case, per diems should be paid to participants as well. Is it correct to pay per diems, from the legal point of view, if they are not employees of the organisation?
Answer	<p>If an organisation incurs any expenses in the framework of the project, they could be considered as project costs. Travel and subsistence costs for staff and other persons taking part in the Project are eligible, provided they do not exceed those normally borne by the Partner implementing the Project and the rates published by GIZ. There are two kinds of allowances: Subsist (daily) and accommodation allowances published by GIZ. This means that such kind of costs should be foreseen by the project budget, which is prepared and approved beforehand.</p> <p>In spite of that, these expenses are not considered as travel expenses according to Georgian legislation and are subject to income tax.</p>
Question	If an employee went on a business trip on Saturday, should I pay per diem for that day or not?
Answer	According to Decree of the Minister of Finance of Georgia № 220 dd. April 5, 2005, per diems should be paid for all days spent in business travel, including weekends and holidays.

FOR NOTES

Dotted lines for notes.



EaPTC

EaPTC

**Eastern Partnership Territorial Cooperation
Support Programme (EaPTC)**

Business Center,
19 Gamrekeli St., office 411
Tbilisi, GEORGIA
Phone: +995 790 369073
www.eaptc.eu

The Programme is implemented by Altair Asesores in consortium with CECOFORMA, EIR Global, ICBSS, PM Group and TRT

